

# Look back, look ahead

2007 has certainly been an eventful year for the retail technology market. Scott Thompson casts an eye over the last 12 months, reviews some of the key developments that have taken place, and looks ahead to 2008

The year has been dominated by new regulations implementing the Waste Electrical and Electronic Equipment (WEEE) Directive and the Payment Card Industry Data Security Standard (PCI DSS). Online sales, contactless payments, the EPoS sector and the environment have also grabbed their fair share of headlines.

## E-retail

2007 was the year when e-retail hit hypergrowth as all of its critical success factors aligned. Online shopping grew fast all year, but it changed gear in July, outpacing High Street growth by a factor of 25. July's surge in e-sales, up 80 per cent on last year, took the Interactive Media in Retail Group (IMRG) Index to a new all-time high, bursting above 4,000 for the first time (4,111). UK e-retail sales exceeded £4 billion in a month (£4.2 billion - also a first), £1.86 billion higher than in July 2006. Furthermore, as Retail Systems went to press, the UK online retail market was gearing up for a record breaking Christmas total of £13.6 billion, according to statistics released by Forrester Research. This represents a 40 per cent increase in online spending against the same period last year and outstrips the rest of Europe with the UK commanding a 38.5 per cent share of the European internet retail market.

All of which is in marked contrast to the High Street where July sales were just 3.3 per cent higher than July 2006, according to national statistics. It's a situation that multi-channel retailers are well placed to address. Regular online shoppers became the

majority in 2007, as did the proportion of broadband households; the percentage of total retail online went double digit, passing a tipping point; big investments poured in from retailers bringing greater product choice and much improved shopping experiences; personal computers are as 'cheap as chips' and now come internet-ready; even the delivery industry finally began to raise its game, although there is still much work to be done in that area.

Multi-channel retailing is often seen as the realm of the large enterprises, but as online retailing continues to grow, small/medium enterprises are looking hard at their integrated multi-channel offerings, according to Tony Bryant, business sector manager at K3. "There is an increasing need for retailers to offer customers a fully-integrated, seamless multi-channel experience, where products can be ordered online and either collected in-store or delivered to a specified location," he says. "Consequently, K3 is expecting during 2008 a rising demand from smaller retailers, as well as large ones, to develop and integrate their web channel with the rest of their enterprise applications."

Ultimately, we can expect to see the multi-channel revolution continue at a pace in 2008. And this means that those retailers who have yet to get onboard must do so next year. "The last of the stragglers must get online in 2008 or risk missing out on significant online potential. For those already in the game, they must pick up the pace - implement new features, offer more

services online and increase integration with their other channels. During 2007, we witnessed the rise of social networking. Clever retailers will start to get their heads around how to exploit exploding interest in social networking sites. This will enable them to both gather the opinions of their customers and, critically, to influence them," says Paul Mason, CEO at Paul Mason Consulting (PMC).

## The environment

The green bandwagon continued to roll across the UK and Europe in 2007, ushering in the WEEE Directive - which aims to minimise the environmental impact of electrical and electronic equipment by increasing re-use and recycling, and reducing the amount going to landfill. Another offshoot was that retailers (and the supermarkets in particular) were frequently the victims of bad press when it came to their commitment to the environment - a typically damning comment coming from Friends of the Earth supermarket campaigner, Vicki Hird, ahead of the Competition Commission's report on supermarkets (released in late October): "The evidence is undeniable: consumers, farmers, small shops and the environment are all suffering as a result of supermarket dominance. The so-called tough competition between the big four is not healthy, and rules, which should ensure that competition works for society as a whole, are failing."

Yet many retailers have made significant strides in recent times. A good example being Marks & Spencer which recently topped a YouGov survey revealing the ten companies UK consumers say have the best reputation - it gained almost twice as many mentions as the next highest, John Lewis Partnership. In November, M&S announced that it had started to use food waste to power some of its stores. The renewable electricity is being provided through an anaerobic digester in Shropshire, which is taking household food waste and converting it into electricity. The



M&S continues to demonstrate its green credentials.

site is the first of two anaerobic digesters to supply the retailer. The other anaerobic digester will be located on a farm by spring 2008 and will be fuelled by cow slurry and agricultural crops. Together, they are set to produce enough renewable electricity to power six M&S Simply Food stores. This development forms part of the company's Plan A project, which sets out its 100 'eco-targets' for the next five years, including aiming to become carbon neutral and send no waste to landfill.

"As media coverage surrounding climate change reaches fever pitch, retailers are finally waking up to risks the industry faces," says K3's Tony Bryant. "Many are spearheading the response – outlining wide ranging environmental targets and a substantial reorganisation of their business processes. We expect the green bandwagon to roll further, and faster, as competitors continually aim to out-manoeuvre each other and we have to think how technology fits to support a global greener supply chain with less waste, greater availability and collaboration, and in some cases a stockless supply chain."

In 2007, the increasing importance of green issues to the consumer and global sourcing suddenly became more complex, observes Rob Smith, marketing director at Kewill. "Who would have thought we would be discussing the carbon footprint of a punnet of strawberries?" he asks. "Many of the UK's largest retailers reacted by carrying some form of green policy or targets, which were duly communicated to key stakeholders and the wider public. Whether this was a cynical PR stunt or altruism, 2008 will see retailers attempting to deliver on these promises by monitoring their sourcing strategies, staying local when possible and going global when necessary."

#### PCI DSS

PCI DSS has been a major feature of 2007 and, in particular, the fact that only a small number of companies are thus far compliant. "Many retailers have yet to start down the road to compliance and very few (outside of Tier 1) have achieved it. When people say that the only business benefit in achieving compliance is unrestricted continuance of trading using credit and debit cards as tender, they must remember that, in the second quarter of 2007, 1.7 billion plastic card purchases totalling £87.2 billion were made in the UK," says Alan Morris, managing

director at Retail Assist. "If a retailer lost its ability to process plastic card transactions, the impact on the business would be devastating. Even if they were allowed to continue accepting plastic but commission rates were increased (one possible penalty for those failing to obtain compliance), the financial penalties could be enormous. Taking this into consideration, PCI DSS compliance is going to become a 'must do' project for every retailer that hasn't already begun the process."

#### EPOS

For Paul Hudson, business manager at J2 Retail Systems, the following are the top issues and preoccupations raised by retailers during the past year in relation to their EPOS requirements. "We have every expectation that these subjects will remain high on the agenda for 2008," he notes.

**Marketing** – "Retailers increasingly want to use their PoS systems to do more than transact business. They want to combine them with in-store systems that can advertise products and generate interest. They are talking to their suppliers about supporting and funding this. We are now supplying clients with second screens for multi-media work to operate in tandem with their EPOS."

**Fast service** – "Fast service is imperative and, to guarantee this, retailers are demanding intuitive, touchscreen tills, backed up by broadband connectivity."

**Reliability** – "This is top of everyone's list. The embarrassment and damage that can be caused to reputation and sales have to be avoided at all costs. J2 has always focused on reliability and is finding that retailers put reliability above cheapness when they purchase EPOS. The focus on reliability is also pushing retailers towards integrated, rather than stand-alone, units which contain all the required functionality. Fewer cables and external linkages mean fewer points of failure."

**Cost of ownership** – "Once reliability has been established, cost of ownership becomes the next preoccupation. This

relates to both the cost of hardware purchase and its maintenance. J2's three-year warranty is a winning card (ref. Empire Cinemas) in a market where most manufacturers offer only a 12-month guarantee."

**Small footprint** – "For practical, aesthetic and economic reasons, retailers are keen to purchase EPOS units that are low-profile and quiet, and have contemporary styling and a small footprint. The motivation here is that, regardless of whether the retailer is a glossy, leading brand or a discount-based operation, there is a huge premium on store selling space."

#### 2008

"There is no doubt that real challenges lie ahead for retailers, but we can be optimistic that technology will play a key role in the coming years as consumers' acceptance of innovation in customer service improves," says Sion Roberts, European director of consumer industries and retail at EDS.

Roberts believes that we will see true multi-channel integration through payment systems in a way we've not seen before, and far closer tie-ins between physical stores and their internet shop counterparts as retailers benefit from the best of both worlds. "We'll also see more successful trials of wireless item identification to reduce retailers' costs and deliver a more compelling experience to consumers. Outsourcing non-core operations such as IT, finance and HR can help to cut costs but more importantly free up capital so that retailers can invest in improving the customer experience – the key to attracting new customers and keeping existing shoppers loyal. Outsourcing is also a fast-track to "going green" as retailers' take advantage of external service providers' investments in more modern and more efficient systems," she says.

Elsewhere, it will be interesting to see how Torex Retail fares in 2008. It's been an incredibly tough year for the company but the next 12 months could well see it leaving a flurry of negative headlines behind. It recently restructured global operations



Voice recognition technology: one to watch in 2008?

under a new management team, bringing together many disparate business units to create an outfit operating under one brand. "Watch out for the Torex fight back. 2007 was ugly for them with their financial difficulties and the SFO investigations. However, the acquisition by Cerberus has given them significant financial muscle and a hungry new management team. They have some gems on the product side, so expect them to be active in the market," says Paul Mason.

Mason also notes that the EPoS replacement cycle is running out of steam. "That means the number of new projects will jog along at lower levels in 2008 than for the past three years," he says, adding that,

"There are signs of activity brewing on the retail enterprise systems front, with retailers large and small looking to upgrade their solutions. It should be a big year for SAP and Oracle at the top end and Aldata, BTE (Mercatus and Merchandising 4.0) and K3 for the small to mid-size players."

Meanwhile, James Hannay, managing director at Zetes UK, sees voice recognition technology as key for retailers in driving productivity and accuracy gains, and receiving a fast return on their investment. As more retailers realise its potential, voice will begin to move from the picking process, to goods in, replenishment and beyond, he argues. "Driving down costs will continue to be a focus and the introduction of new

solutions, such as the wireless forklift truck management solution Zetes are launching in the New Year, will be an attractive option for retailers in addressing the significant cost and safety issues associated with forklift trucks. The system quantifies fleet utilisation by monitoring each vehicle's movements – who is driving, where, when, and how long and it ensures compliance with vehicle safety regulations, delivering benefits such as a reduction in maintenance costs, fleet size and damage costs, as well as increasing operator productivity, safety and security."

Last word to Professor Merlin Stone, director at Nowell Stone and The Database Group. "I think – and I only think (in other words I'm not sure) – that retailers in the UK and possibly much of the developed world will be as much focused on the technology that links them directly to customers as on the technology they use within the store," he observes. "In some sectors, the march of the worldwide web continues, with consumers buying more and – even if not buying – comparing more, 'stealing' the 'see, touch and feel' where necessary by visiting the store and then ordering on the internet. The more complicated the product, the more likely this will be. Retailers who expect to get more than a few per cent more on the price by making it available in-store will be increasingly disappointed as their sales disappear. Indeed, whole categories (such as CDs) have come under threat from this route. However, retailers who go the other way and embrace the web, using their retail space to sell the items which can't so easily be sold on the web, or as a distribution depot for web sales (already successfully practiced by some), will do well."

"On the dark side, in-store technology (and of course online as well) will increasingly be deployed to control fraud and its close relative, de-shopping. Where card fraud is concerned, retailers will be expected to be much more tightly linked to their merchant services providers, and also to be tougher on staff fraud (which can account for up to 50 per cent of fraud). Increasingly, I expect identity checking services to be used in retail recruitment, as retailers discover that it really is worth ensuring that staff have an honest history," he adds. "Finally, I look forward to the day when self-serve sweeps away the burgeoning retailer call centres, which often owe their existence to poor design of customer service and complaint processes."

### More thoughts from the frontline

"Internet shopping will continue to rise. Whether it will replace brick and mortar is questionable. For commodity products it might well, however in other industries it will be a complementary technology and sales channel. Due to the rise of internet shopping and trend predictions, there are challenges for retailers to ensure that they have stock in time, and this is equally more important for smaller retailers to not be swamped by their larger counterparts and prepare well. Search engine rankings and pay per click marketing will also play a major part in how the retailers attract their customers and ensure they receive a share of their wallet." – Ian Tomlinson, managing director, Cybertill.

"I have seen a growing interest in tactical technology solutions amongst retailers during 2007. Costly ERP systems are in place and now retailers want to make the next step to drive down costs and increase sales. With the widely predicted economic slowdown we have seen a real surge of enquiries to Triangle from retailers who want to make the most of existing assets. The workforce is a prime example, as the second largest cost to retailers there is a momentum toward increasing their productivity through better labour management and role based communication. 2008 will be about making investments to increase the return of existing infrastructure." – Karen Dyke, business development director, Triangle.

"Simple supply chain management and stock control are things of the past. New channels to market, coupled with product sourcing from emerging countries, have added previously unprecedented complexity to the business processes and systems deployed by the UK's retailers. Trying to keeping track of the evolving retail baseline is sure to keep many IT departments busy in the coming year." – Alan Morris, managing director, Retail Assist.

"The first public launch of contactless payments in the UK in September has been the major retail technology focus for 2007. It shows the potential of extending EMV technology to run new applications. Although there has been a lot of hype surrounding the launch, the real benefits will only come into effect during 2008 when contactless fully penetrates into retail. Currently there are no integrated PoS devices for retailers that combine chip and PIN and contactless payments. These will be rolled out early next year. Banks have predicted that there will be 100,000 contactless PoS devices in UK stores by Christmas 2008. Until the card schemes relax the "all cards honoured rule" requiring vendors to offer chip and PIN functionality in addition to contactless payments many merchants – such as kiosks, parking areas and vending machine operators – will not make the switch. It is a suitable and convenient solution to take the place of their low value cash purchases." – Cameron Olsen, VP business development, Smart Technology Solutions (STS).